PEAK ENERGY SERVICES LTD. 2002 Annual Report

Take a Look

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CORPORATE PROFILE

Peak Energy Services Ltd. ("Peak") is a leading Canadian oilfield service company providing drilling and production services to the western Canadian oil and gas industry. Founded in 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines. Peak's integrated package offering and broad geographic range benefit customers by increasing efficiencies and reducing costs.

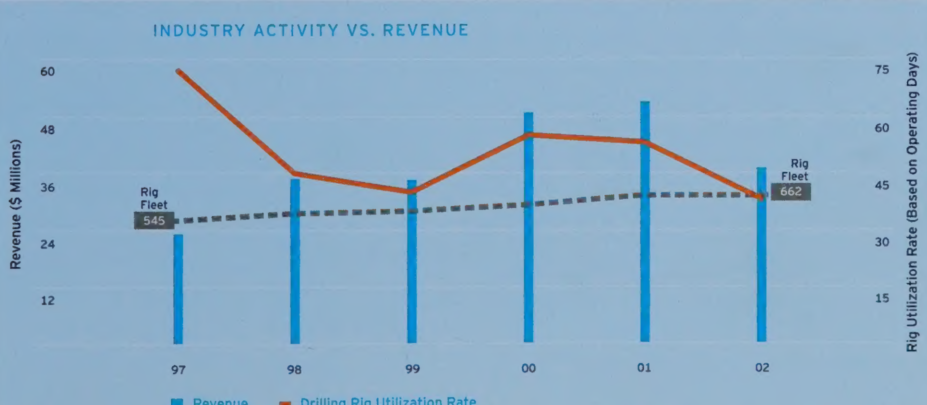
In spite of a 27 percent reduction in drilling rig utilization in 2002, Peak continued to perform well in all major product lines. Peak management has diligently streamlined operations to create a strong and enviable balance sheet which positions the Company to take advantage of the anticipated return to higher activity levels in 2003. Our financial strength at year-end has enabled Peak to successfully complete three strategic acquisitions including Mighty Mats Ltd., Cobalt Rentals Ltd. and Whitefox Environmental Services Inc. during the first four months of 2003 and to continue focusing on several other profitable growth opportunities. Financial flexibility will continue to be the cornerstone of Peak's long-term strategy to provide enhanced returns for shareholders.

Financial Highlights

As at December 31 (in thousands of dollars, except per share amounts)	**2002**	2001	% Change
Revenue	**37,280**	51,298	-27
Net income from continuing operations	**737**	5,753	-87
Per share (diluted)	**0.02**	0.18	
EBITDA (1)	**7,213**	16,814	-57
Per share (diluted)	**0.23**	0.52	
Cash flow	**4,759**	14,451	-67
Per share (diluted)	**0.15**	0.44	
Capital expenditures	**6,591**	9,669	-32
Current assets	**15,642**	20,059	-22
Capital assets	**104,816**	103,335	1
Long-term debt	**14,767**	17,696	-17
Total liabilities	**44,654**	46,814	-5
Shareholders' equity	**76,039**	95,690	-21
Working capital	**11,748**	17,185	-38
Long-term debt to equity	**0.19**	0.18	5
Number of common shares outstanding (thousands)	**29,978**	31,085	-4
Industry Activity (2)			
Number of rig operating days	**91,958**	120,445	-24
Drilling rig utilization (based on operating days)	**38%**	52%	-27
Service rig utilization	**62%**	69%	-10

(1) EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes, in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Company's principle business activities prior to consideration of how those activities are financed or how the results are taxed in various jurisdictions. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Peak Energy Services Ltd.'s performance. The Company's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

(2) Source: Canadian Association of Oilwell Drilling Contractors



Fellow Shareholders

The past year was difficult for the oil and gas services sector. The overhang in natural gas inventory from 2001 resulted in reduced drilling activity. Utilization rates in the drilling industry totalled 38 percent, the lowest level realized since 1992. Also, in times of lower utilization, the simple rules of supply and demand result in an erosion in pricing, which we experienced during the year.

These low levels of activity resulted in reduced results for Peak in 2002. Revenue totalled $37.3 million compared to $51.3 million in 2001, a reduction of 27 percent. This correlates directly to the 27 percent reduction in drilling rig utilization realized in the same time period. With our high operating leverage to activity levels, our operating margins are negatively impacted in periods of low activity levels and positively impacted in times of increasing activity. Unfortunately, 2002 was characterized by low activity levels, resulting in reduced operating margins. Earnings before interest, taxes, depreciation and amortization totalled $7.2 million for the year compared to $16.8 million in the prior year, while net income from continuing operations before goodwill amortization totalled $0.7 million compared to $6.9 million the prior year.

That said, Peak was in the enviable position of being able to weather the reduction in activity levels in 2002. Our balance sheet is among the strongest of our peers. We have always maintained a disciplined, conservative approach to managing our balance sheet to allow us to have maximum flexibility at all times in the cyclical environment we operate in. At year-end, our net debt (interest bearing debt net of cash) totalled just $14.8 million on equity of $76 million and working capital totalled $11.8 million. In addition, we had undrawn credit facilities of approximately $45 million at year-end. This financial flexibility has allowed us to continue to grow the business through a combination of acquisitions and internal growth.

RECENT GROWTH INITIATIVES During the fourth quarter, in response to customer demand, we added assets in both our solids control and production services businesses. In our solids control division, we added four high-capacity centrifuges and related equipment which were integrated into our fleet in early 2003 and enjoyed strong utilization rates throughout the first quarter of 2003. In our production services business, we added capacity to meet the demands of our major customer in Ft. McMurray, Alberta and also realized high utilization on those assets since introducing them in early January 2003.

In the latter part of 2002, it became apparent that industry activity would begin to show improvement into the next "up cycle." We began to aggressively pursue acquisitions that meet our strict criteria. The results of these efforts were realized in March 2003 with the strategic acquisitions of the assets of Mighty Mats Ltd. and Cobalt Rentals Ltd.

Based in Ft. Nelson, B.C., Mighty Mats provides access matting for roads, pipelines and drilling locations in remote areas of northeast British Columbia and the Ft. McMurray area of Alberta. Access matting is used primarily in the summer months to gain access to remote locations that would otherwise be inaccessible due to muskeg conditions. Access matting is becoming widely used in these areas as operators are increasingly focused on gas drilling targets in the northeast B.C. area and steam-assisted gravity drainage ("SAGD") targets in the Ft. McMurray, Alberta area on a year-round basis. Cobalt provides solids control and low-horsepower gas compression equipment on a rental basis in Ft. Nelson, B.C. and Grande Prairie, Alberta. Both of these transactions have already been successfully integrated into our primary rental subsidiary, Rocky Mountain Energy Services Partnership.

These transactions were followed in early April 2003 with the acquisition of the shares of Whitefox Environmental Services Inc. Whitefox provides waste-water management systems for the processing of grey and black water effluent on remote locations. These systems are very versatile and can be used in a wide range of applications, from a single wellsite trailer to a medium-sized camp (under 100-man). Whitefox currently has a fleet of treatment units that are running at or near full capacity. These units are manufactured by a Louisiana-based company that has recently provided Whitefox with a five-year agreement to be the exclusive distributor for these products in Canada. This proven technology has been utilized in the Gulf of Mexico and North Sea for over 30 years, is U.S. Coast Guard approved and meets all current regulations in Western Canada for portable waste-water treatment.

Christopher E.
Haslam

President and
Chief Executive Officer

The regulations within the oil and gas industry are becoming increasingly stringent with respect to the processing and disposal of waste water in remote locations. As a result, we believe the demand for this service will continue to increase. An aggressive capital expenditure program over the next several months will ensure that Whitefox will have the ability to meet the demand for this product. Management believes there are significant growth opportunities through the integration of this product within our current wellsite business as well as applications for this technology in many other industries.

The combination of our ongoing internal growth initiatives and these transactions are evidence of Peak's ongoing commitment to provide a broader package of rental equipment and a higher level of service to our customer base. We expect these transactions will be accretive on both a cash flow and earnings basis in 2003.

HEALTH,SAFETY AND ENVIRONMENT

The management and Board of Directors of Peak are committed to ensuring the health and safety of all of our employees while maintaining a high level of environmental responsibility in all areas of our operation. To that end, we began to develop a well-defined Health, Safety and Environment ("HS&E") program in late 2001. Our HS&E system development has resulted in exceptional performance in 2002, with a 72 percent reduction in recordable injuries over 2001. All levels of the organization, from the front lines to senior management, have been actively involved in helping us become an industry leader in our HS&E performance. This commitment follows through to our customers, where we have been flexible and innovative in adapting our equipment and services to meet and exceed their HS&E expectations.

Late in 2002, a Corporate HS&E Manager role was created to develop an overall, integrated system for all Peak companies. The integration effort will be supported by unique, web-based technologies we have developed for effectively managing our documentation, reporting incidents and delivering online training. These computer tools are part of a comprehensive system that dovetails with hands-on training and inspections. The overall HS&E system is designed to easily expand and grow with the organization, so that we continue our exceptional performance.

OUTLOOK

The outlook for 2003 is promising as natural gas inventory storage levels remain under pressure and hydrocarbon prices continue to be strong. Peak experienced utilization levels in excess of 90 percent in our Drilling Services division during the first quarter of 2003. Activity beyond the first quarter of 2003 continues to be largely dependent on the continued strength of commodity prices. Having said this, Peak is optimistic activity will be significantly improved over the balance of 2003 relative to 2002 given the recent draws on natural gas and crude oil inventory in North America. These higher activity levels will ultimately result in increasing prices for our services and thus improved operating margins. Our recent internal growth and acquisitions are evidence of management's ongoing commitment to grow our business at the appropriate time in the cycle, while maintaining an enviable financial position which allows us to be opportunistic in our growth initiatives.

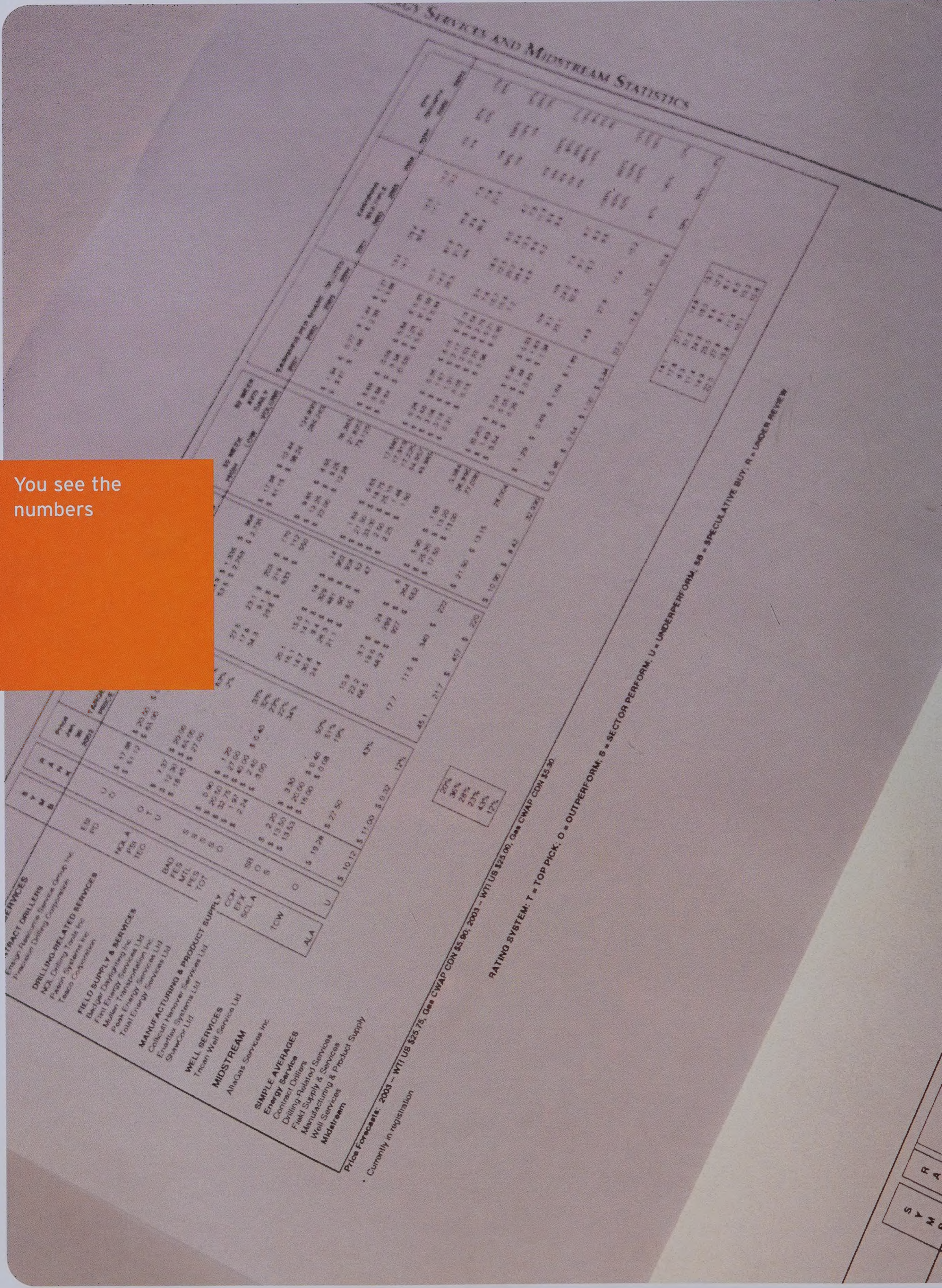
I would like to take this opportunity to thank all of our employees for their ongoing commitment and dedication. Our employees are without a doubt the largest contributor to our ongoing success.

On Behalf of the Board of Directors,

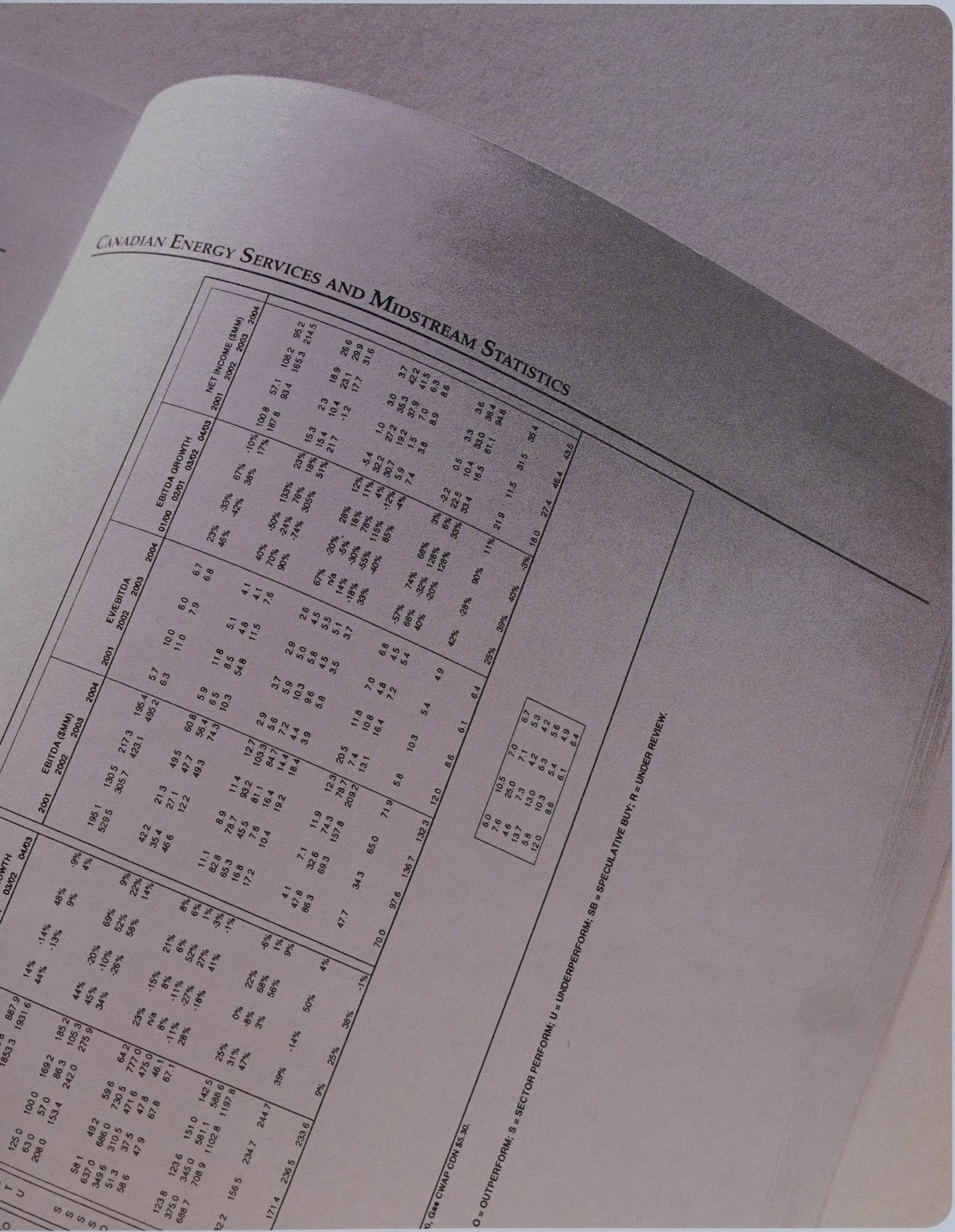
Christopher E. Haslam
President and Chief Executive Officer

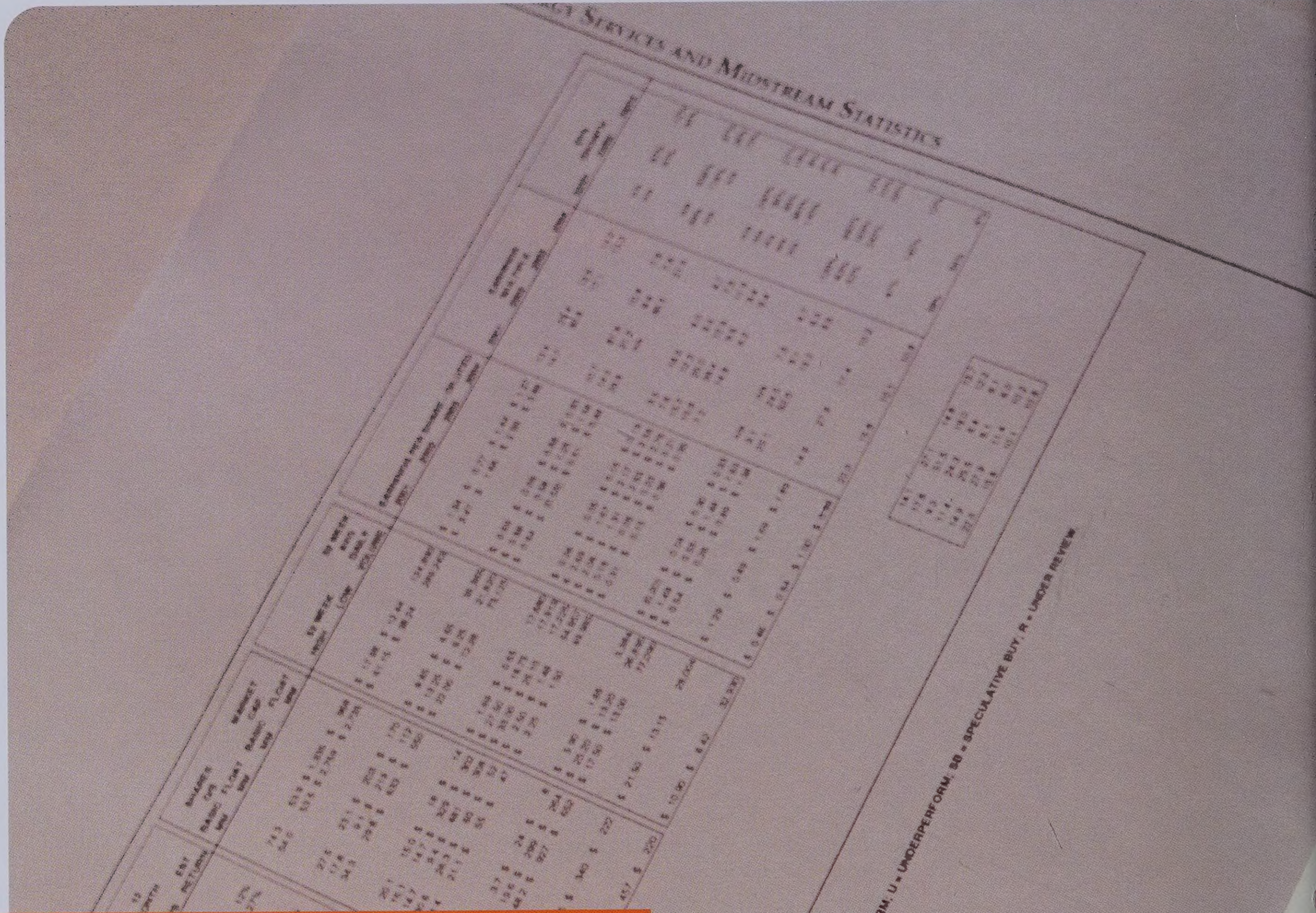
April 14, 2003

Look at Peak the way we see it



You see the numbers


CANADIAN ENERGY SERVICES AND MIDSTREAM STATISTICS
O = OUTPERFORM; S = SECTOR PERFORM; U = UNDERPERFORM; SB = SPECULATIVE BUY; R = UNDER REVIEW.



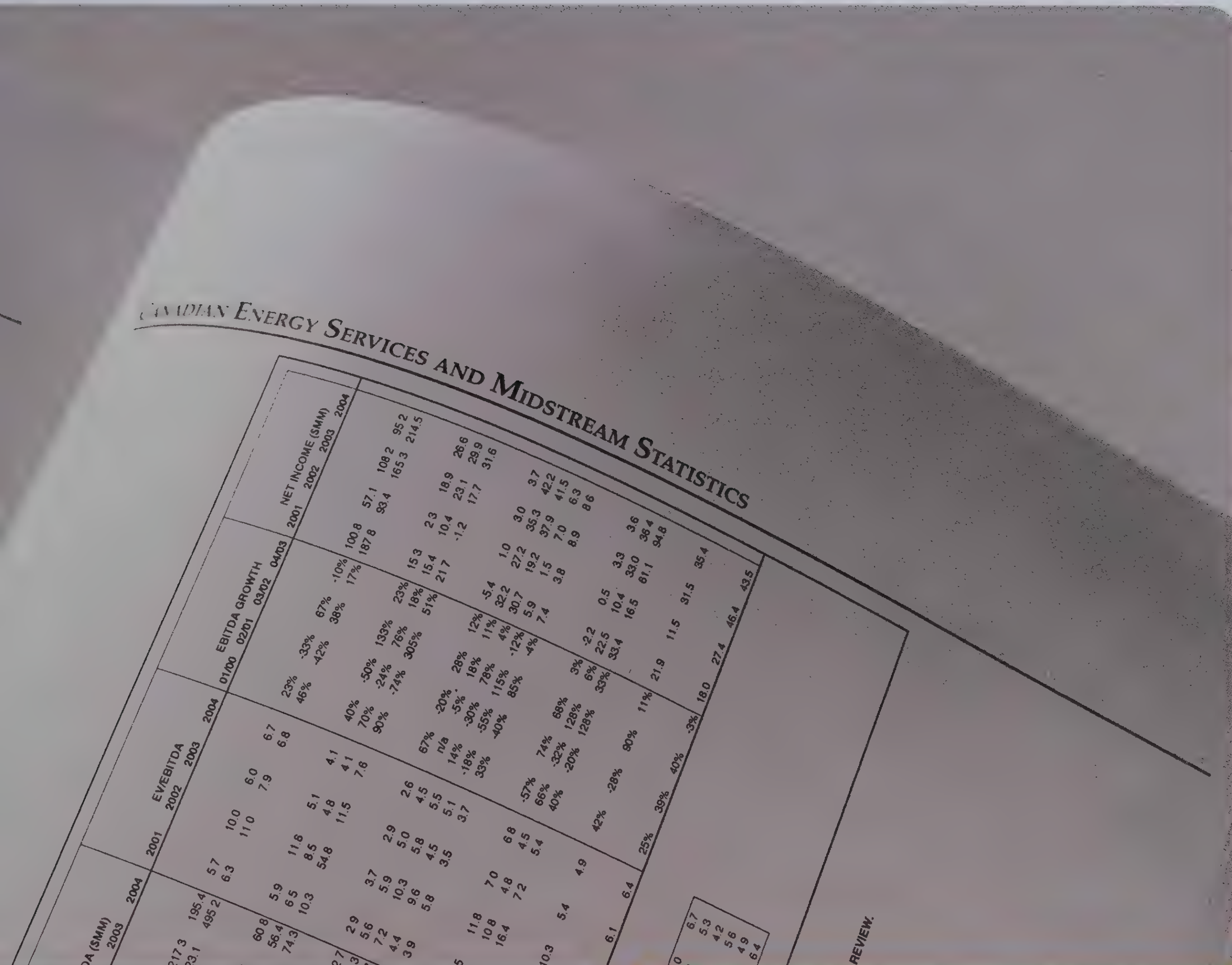
We see the year ahead

FINANCIAL FLEXIBILITY

With net debt of $14.8 million (defined as total debt less cash and marketable securities) on shareholders' equity of $76 million and available credit facilities in excess of $45 million, Peak is well positioned for the anticipated return to higher levels of activity in 2003. This solid financial foundation has also enabled the Company to focus on several strategic acquisitions.

STRENGTH THROUGH PEOPLE

The extensive industry knowledge and day-to-day professionalism of our personnel is the foundation of our success – past, present and future. Peak prides itself on providing its valued customers with operations personnel who possess a strong work ethic and a "can-do" attitude second to none in the industry.

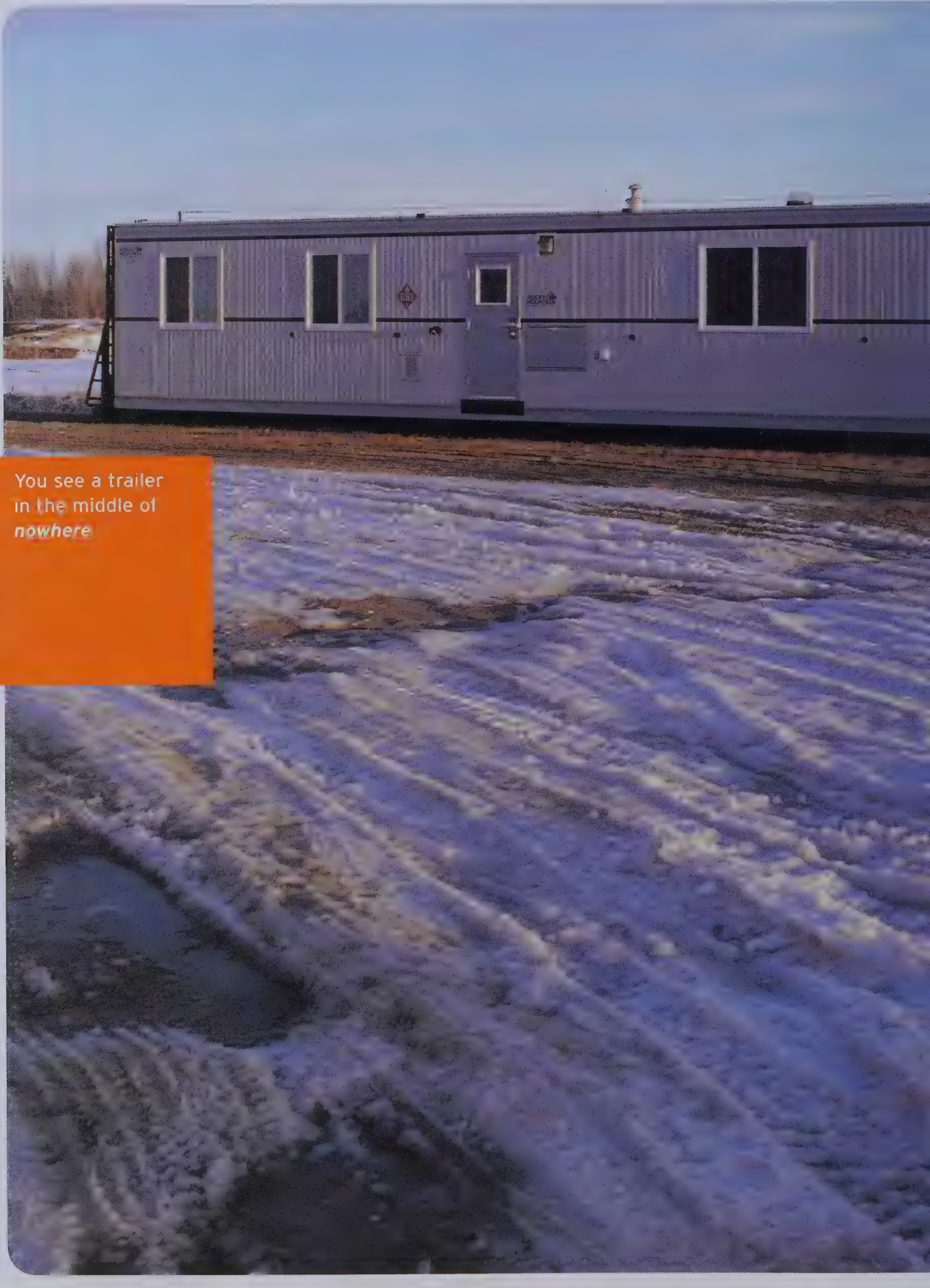


GEOGRAPHIC DIVERSITY

Peak is committed to the geographic expansion of our field locations to strategic points throughout the Western Canadian Sedimentary Basin. This commitment to growth allows our equipment and operational staff to be close to the activity on a 24-hour, 7-day-a-week basis, therefore providing short response times and competitive pricing which translates into "value added" service to our customer base.

PRODUCT OFFERINGS

The Company continues to expand and improve on the products offered to our customer base. Diversification of product lines, coupled with the growth, improvement and technological advancement of existing products, creates a win-win relationship for Peak and our customers. In concert with the above, the Company continues to manage an ongoing divestiture program to rid the fleet of underutilized assets.

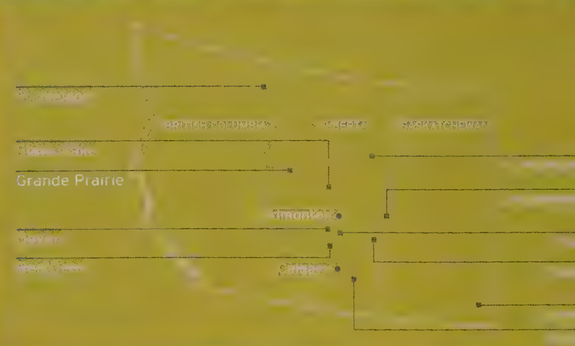


You see a trailer
in the middle of
nowhere

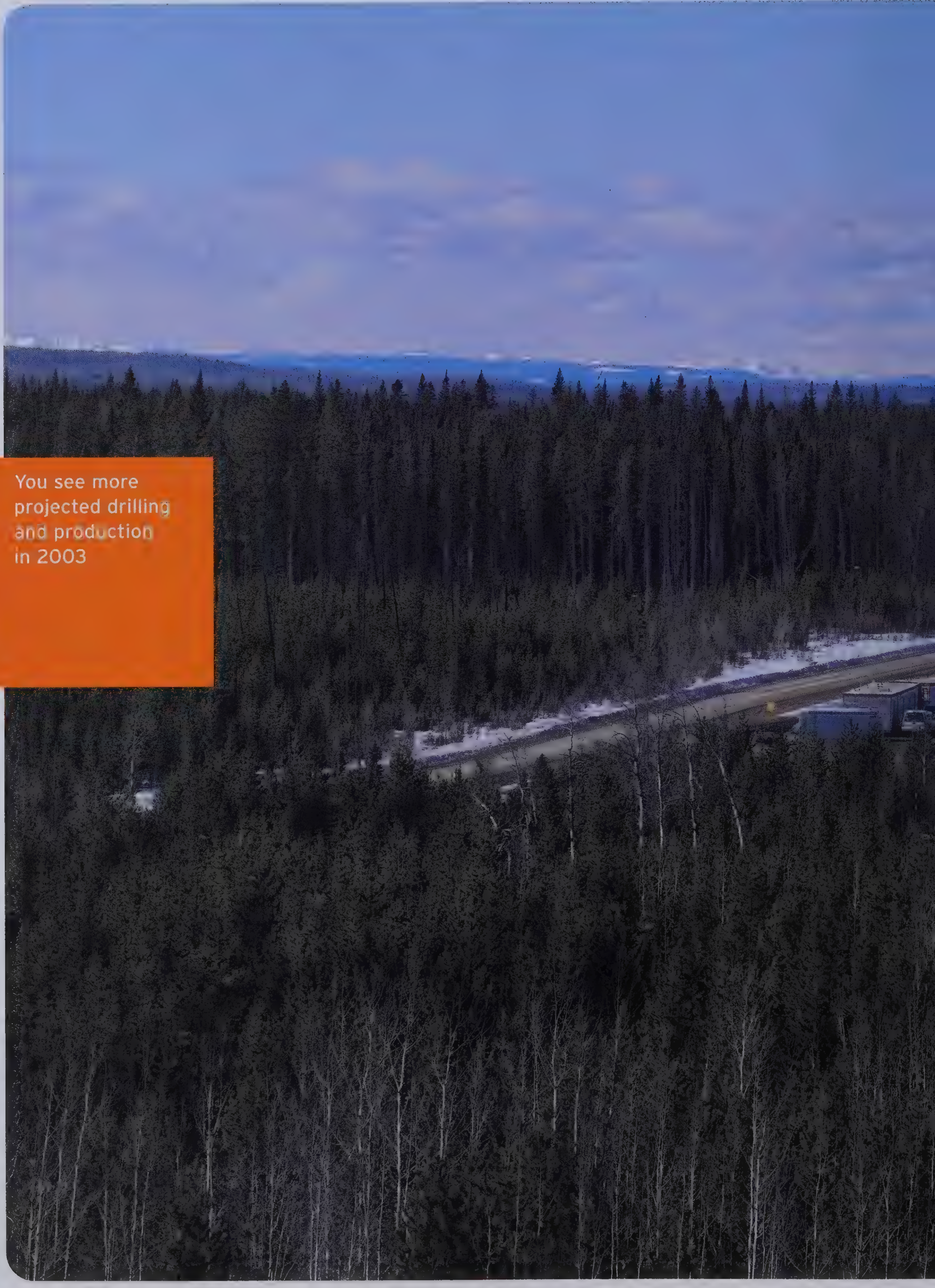
We see *nowhere* as opportunity

WHERE WE WORK

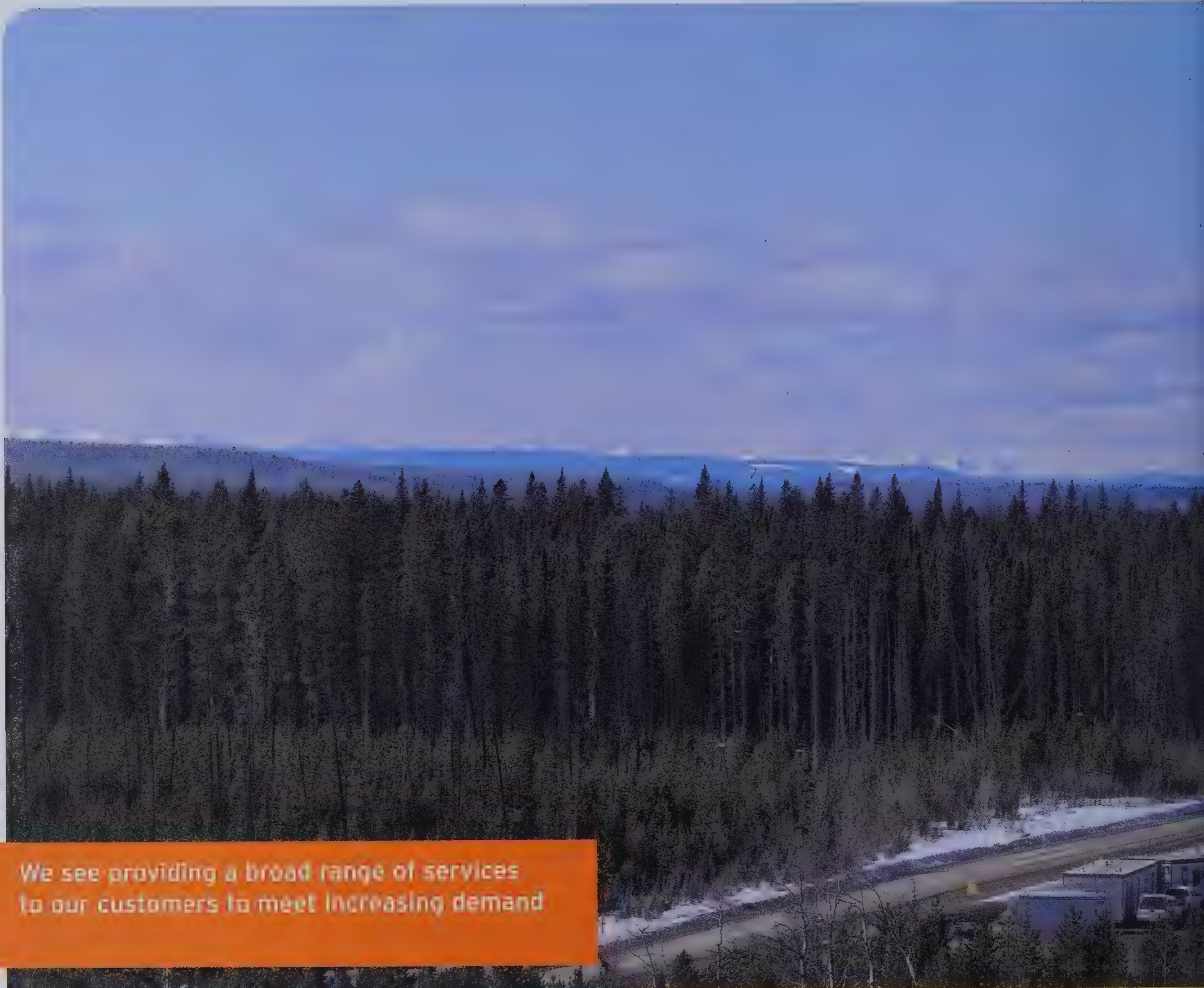
PRODUCTION SERVICES



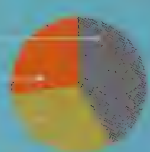
DRILLING SERVICES



You see more projected drilling and production in 2003



We see providing a broad range of services to our customers to meet increasing demand



DRILLING SERVICES

PRODUCTION SERVICES

ROCKY MOUNTAIN ENERGY SERVICES
Production Rental Equipment

Production
Production tanks
Production tubing
Single well batteries
Separators

Service Rigs
Rig tanks
Rig matting
Flare stacks
Power swivels
Workstring tubing
Handling tools
Pup joints
BOP equipment
Accumulators
Spools, flanges, valves
Light towers
Power tongs

Frac Packages
Frac tanks
Frac heads
Flow back tanks
Frac tubing
Frac lines

PEAK ANCHOR SERVICES
Anchor Services

Anchoring service rigs
Anchoring facilities
Industrial applications

LANCHEM INDUSTRIES
Specialty Fluids Handling

Completion fluid hauling
(frac fluid, acid, etc.)
Crude oil hauling
Chemical hauling
(methanol, glycol, etc.)
Water hauling
Hot oiler units
Pressure trucks
Vacuum trucks
Steamer Units

Drilling Services Division

SOLIDS CONTROL

Our solids control systems are used in the drilling process, primarily for the removal of well-bore cuttings from drilling fluids. These systems play an important role in the drilling of deeper critical gas wells and for directional or horizontal drilling applications. The effective removal of fine solids from the drilling fluid can often mean the difference between success and failure when drilling these expensive critical wells. Should the solids content of the drilling mud not be strictly controlled it can have a significant negative impact on the economics of the drilling play. The nucleus of our solids control system is the high-speed centrifuge. The centrifuge is typically surrounded by a series of pumps and tanks that help complete the solids control package. These packages are customized to meet our customers' exact requirements and specifications.

2002 Highlights

- Second largest provider of solids equipment in Canada.
- Purchased four new high-volume "Summit" centrifuges in late 2002.
- Capital expenditure program keeps fleet in "like new" condition.
- Addition of two new field locations giving broader geographic presence throughout the Basin.
- Expanded customer base.

This division continues to be operated under Peak's largest operating entity, Rocky Mountain Energy Services Partnership. The Company remains the second largest provider of solids control equipment in Canada with 133 decanter units and an approximate market share of 20 percent. These numbers include the addition of four high-volume, state-of-the-art "Summit" centrifuges in December 2002. The Company had already acquired four of these machines early in the year and now boasts a total of eight (seven percent of our fleet) along with the 125 conventional units that remain in high demand by our customers.

During 2002, this division managed to expand its customer service capabilities by opening two new field locations, which brings the total to seven locations in Alberta: Grande Prairie, Slave Lake, Rainbow Lake, Nisku, Lloydminster, Red Deer and Brooks and one location in Estevan, Saskatchewan. This geographic expansion is part of our ongoing commitment to give our customers access to our complete line of equipment and services throughout the Western Canadian Sedimentary Basin. The head office for Rocky Mountain Energy Services resides in Calgary.

Curt W. Whitteron
Vice President, Operations

Our main competitive advantage in this division remains the age and quality of our rental fleet in comparison to our peers in the industry. This was further evidenced by our commitment of capital to this division in 2002 and our ongoing program to divest of obsolete or aged equipment. Capital expenditures of $2.4 million were allocated to this division, with the majority of this ($2.1 million) being used for the purchase of the new "Summit" centrifuges and the remainder ($0.3 million) deployed for the ongoing maintenance and upgrading of our fleet.

Peak's solids control division generated $11.6 million or 54 percent of our drilling services revenue for the 12 months ended December 31, 2002. This compares to $17.3 million or 54 percent of our drilling services revenue for 2001. This drop in revenue year over year can be largely attributed to the 27 percent drop in drilling rig utilization (operating days based) in the industry. The balance of the shortfall is due to the increase in competition and lower pricing resulting from this decrease in rig utilization. Peak remains confident that our significant market share, the diversity and excellent condition of our equipment, the strength of our people and an expanded customer base will continue to bode well for our future as an industry leader in this segment.

WELLSITE ACCOMMODATIONS Peak's wellsite division is engaged in the custom manufacturing and rental of high-quality wellsite units. These accommodation units are utilized in close proximity to the drilling rig and are typically populated with engineers, geologists and other technical staff who are critical to the drilling operations on a 24-hour, 7-day-a-week basis. With these professionals spending extended periods of time on these remote drilling locations, it is very important that these units are equipped with state-of-the-art amenities and are in excellent working order.

2002 Highlights

- Largest provider of wellsite accommodation to the oil and gas industry in Canada.
- Addition of new field locations and expanded geographic presence in the Basin.
- Capital expenditure program keeps fleet in excellent working order.
- Disposition of older units and addition of new units enhances overall age and marketability of fleet.
- Manufacturing facility operating autonomously.
- Expanded customer base.

Similar to our solids business, Peak's wellsite accommodation division is also operated by our subsidiary company, Rocky Mountain Energy Services. The Company started the year with a fleet of 356 units which equates to a market share of approximately 25 percent, making it the largest supplier in Canada. This division shares its Calgary head office with the solids control division. Sales and marketing, accounting and administrative functions for the Company operate out of Calgary. The Company further supports this division from the same strategic field locations in Grande Prairie, Slave Lake, Rainbow Lake, Nisku, Lloydminster, Red Deer, Brooks and Estevan. These locations ensure that we can provide all of the necessary support to our customer base, from head office to all points in the Western Canadian Sedimentary Basin.

The main competitive advantage that Peak has in this business segment is our manufacturing facility where we design, build and maintain our fleet. In the past year, we added three new wellsite units to our fleet and refurbished an additional 40. Peak also disposed of 16 older underutilized units in keeping with our strategy to lower the average age of our fleet and to maintain the condition of our equipment to higher than industry standards. These operating principles allow us to continually meet the needs of, and consequently expand, our customer base. Peak spent a total of $1.5 million on capital additions in the wellsite division during 2002.

Effective April 1, 2002, Peak formed Rocky Mountain Structures Inc. which facilitated our plan to make the manufacturing plant a "stand-alone" operation outside the confines of the wellsite rental operation. This transition has allowed us to better focus on our goals of continued growth and increased operating efficiency in both the rental and manufacturing segments of this division. Running autonomously, the manufacturing plant continues to provide our rental operation with the support they require as well as creating its own efficiencies by improving plant throughput on third-party builds.

Our wellsite accommodation division generated $10.1 million or 46 percent of our drilling services revenue for the 12 months ended December 31, 2002. This compares to $14.8 million or 46 percent of our drilling services revenue for 2001. This drop in revenue is largely attributed to the significant reduction in drilling rig utilization. In addition to this, the wellsite market has been somewhat commoditized over the last couple of years, brought on by a build-up of supply which translates directly into lower pricing and increased competition in the marketplace. Peak remains confident in our ability to realize continued success in this segment despite these inherent pressures that are currently being experienced. Our strong market share, focused sales and marketing group, expanded geographic presence and condition of our equipment, combined with a broad customer base that remains highly leveraged to gas and horizontal drilling plays, are the key factors that will help ensure our continued success.

TRUCKING

Our Drilling Services division is further supported by our Company-owned fleet of 16 heavy duty trucks that are equipped to move all of our rental equipment. These trucks are operated by experienced oilfield drivers who also have the ability, if required, to rig up our rental equipment on location. Our trucks operate under Rocky Mountain Energy Services and are dispersed throughout the various field locations as required. This division is another example of Peak's commitment to provide value-added services to our customers.

THE FUTURE

- Further expansion into geographic regions through opportunistic acquisitions (location access matting and premix tank rental assets acquired early in 2003) will enable Peak to offer new products, our existing product lines and a higher level of service for our customers in highly active, remote areas such as Fort Nelson, British Columbia.
- Further growth through the acquisition of companies with complementary products and services.
- Continuation of the equipment disposition program to maintain a modern and current equipment fleet.
- Focused sales, marketing and customer service plan for Rocky Mountain Energy Services.
- Leverage off the formation of Rocky Mountain Structures to bolster efficiencies by increasing throughput in manufacturing plant.
- Capital expenditures of approximately $1.5 million in the solids control division and $1.7 million in wellsite accommodations division expected for 2003.
- Drilling Services is expected to contribute approximately 65 percent of total revenue for 2003.

Production Services Division

Peak's Production Services division provides a broad range of equipment and services that plays a key role in the production and completion phases of a well bore. Our mission in this division is to continue to foster customer relationships and to provide a high quality of service and equipment that will ultimately help customers reduce their production costs at the wellhead. The two major areas within this division are production rentals and fluids handling. The majority of Peak's production rental business is operated within our Rocky Mountain Energy Services subsidiary, while the fluids handling division remains the responsibility of Lorchem Industries (1998) Ltd. A small tension-anchoring business is also operated within our Production Services division. Our main competitive advantage in the Production Services area is our ability to put together comprehensive service packages for customers over a broader geographic region.

2002 HIGHLIGHTS

- Largest provider of fluids handling services in Devon region.
- Largest fleet of "sour service" tank trucks in Devon region.
- Continued growth with Syncrude expansion into Aurora Mine site (long-term contract in place).
- Red Deer fluids branch shows growth despite low oilfield activity in region.
- Production rentals expanded geographic presence with two additional field locations.

FLUIDS HANDLING

Peak's fluids handling division is operated by Lorchem Industries (1998) Ltd. located in Devon, Alberta. In addition to the Devon operation, a full suite of services is also provided through two satellite field locations in Calmar and Red Deer. The Company operates a fleet of 49 modern, well-maintained, heavy-duty trucks that are designed to handle all types of oilfield fluids and provide essential production-related services to the oil and gas industry. This diverse fleet is made up of tank trucks (including sour service), vacuum trucks, pressure trucks and hot oilers. The Company also provides some industrial cleaning services. In addition to its more conventional oilfield work, Lorchem is also under contract to Syncrude Canada near Ft. McMurray to look after all of Syncrude's fluids handling needs on their oil-sands sites. This has been a significant growth area for Lorchem over the past two years with the scope of the new Syncrude contract being expanded to include the Aurora Mine site, located north of the main site. Under the terms of this new contract, Lorchem is to provide essentially the same services it has provided in the past. This new contract has a five-year term that expires September 30, 2006.

PRODUCTION RENTALS

Peak's production rentals business continues to prosper under the umbrella of Rocky Mountain Energy Services. This division's success is largely due to the wider geographic distribution it enjoys through its variety of field locations in Alberta and Saskatchewan. The production rentals division shares locations in Grande Prairie, Slave Lake, Rainbow Lake, Nisku, Lloydminster, Red Deer, Brooks and Estevan with the solids and wellsite divisions. Not unlike the solids and wellsite divisions, this wide distribution network ensures that the broad range of rental equipment supplied by this division can easily be mobilized to any location on short notice throughout the Western Canadian Sedimentary Basin, further increasing the level of service that can be provided to our valued customer base. The products provided by the rental division are too numerous to list but include a large cross-section of goods involved in both the production and completion phases of a well.

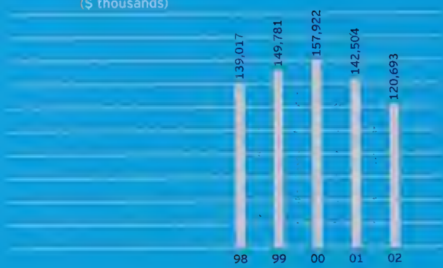
Peak continues to operate the small but profitable subsidiary, Peak Anchor Services, which is involved in providing tension-anchoring services to the oil and gas industry, primarily for service rigs. Peak Anchor Services operates under the trade name of “Anchor King” in Red Deer, Stettler, Slave Lake, Chauvin and Lloydminster.

While the Production Services division doesn't generate the higher revenues or margins of our larger Drilling Services division, it is a key component of Peak and helps to reduce the typical seasonal and cyclical nature of services tied to the drill bit. Our Production Services division generated $15.6 million or 42 percent of Peak's revenue for the 12 months ended December 31, 2002. This compares to $19.2 million or 37 percent of our total revenue in 2001.

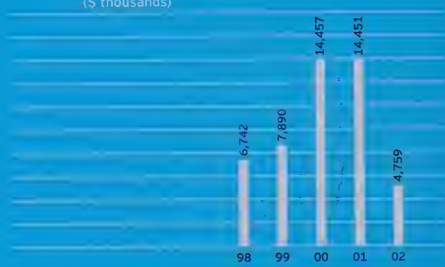
THE FUTURE

- Growth through acquisition (gas compression rental equipment) to expand capacity and geographic presence.
- Strong sales, marketing and customer service plan for Rocky Mountain Energy Services.
- Equipment disposition program to keep fleet current.
- Capital expenditures of approximately $1.2 million in 2003.
- Production Services is expected to contribute approximately 35 percent of total revenue in 2003.

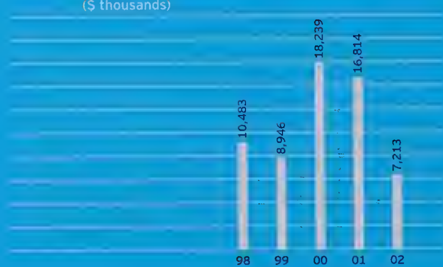
TOTAL ASSETS
($ thousands)



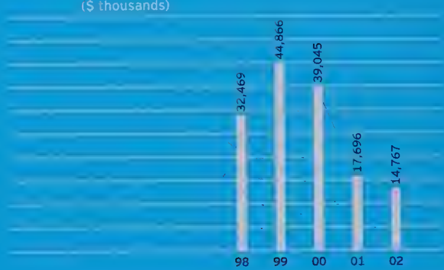
CASH FLOW
($ thousands)



EBITDA
($ thousands)



LONG-TERM DEBT
($ thousands)



INDUSTRY ACTIVITY VS. REVENUE

This management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the oilfield service industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2002 should be read in conjunction with the financial statements and related notes and material contained in other parts of this annual report.

Results of Operations

INDUSTRY ACTIVITY	2002	2001	Increase (Decrease)	% Change
Average rig fleet (1)	660	636	24	4
Number of active rigs (1)	307	391	(84)	-21
Rig operating days (2)	91,958	120,445	(28,487)	-24
Available rig days	240,901	232,277	8,624	4
Rig utilization (%) (operating days)	38	52	(14)	-27
Wells drilled (3)	14,563	17,983	(3,420)	-19

Source: (1) Canadian Association of Oilwell Drilling Contractors' ("CAODC") Rig Activity Map (2) CAODC (3) Daily Oil Bulletin

REVENUE For the 12 months ended December 31, 2002, Peak Energy Services Ltd. ("Peak" or the "Company") generated revenue of $37.3 million compared to $51.3 million for 2001, representing a decline of 27 percent compared to a corresponding reduction of 27 percent in rig utilization (based on rig operating days) over this time period. The total rig operating days during 2002 were 91,958 compared to 120,445 in 2001 and an all-time high of 128,044 in 1997. Correspondingly, the number of wells drilled were down 19 percent from 17,983 in 2001 to 14,563 in 2002.

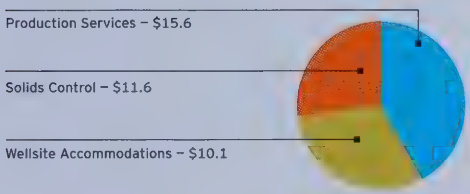
Drilling Services generated approximately $21.7 million in revenue or 58 percent of total revenue for the 12 months ended December 31, 2002 compared to $32.1 million or 63 percent for the same period in 2001. The $10.4 million or 32 percent reduction in drilling services revenue for 2002 substantially reflects the 27 percent reduction in rig utilization, coupled with increased competition and lower pricing throughout the period.

Wellsite accommodations contributed $10.1 million or 46 percent of the drilling services revenue during 2002 compared to $14.8 million or 46 percent for the same period in 2001. The balance of the drilling services revenue for 2002, representing $11.6 million or 54 percent, was provided by solids control. This compares to solids control revenue of $17.3 million or 54 percent for same period in 2001. The $4.8 million or 32 percent reduction in wellsite revenue and the $5.7 million or 33 percent reduction in solids control revenue reflect the significant reduction in drilling rig activity over the period, coupled with lower prices resulting from increased competition and excess capacity in these product lines.

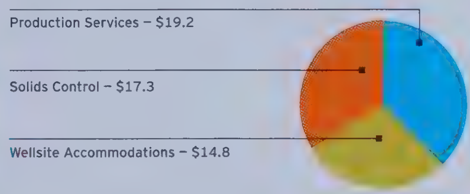
Matthew J. Huber
Vice President, Finance

Production Services contributed $15.6 million or 42 percent of total revenue for the 12 months ended December 31, 2002 compared to $19.2 million or 37 percent for the same period in 2001. The lower reduction in revenue in this segment for the year (down $3.5 million or 19 percent) reflects the less cyclical nature of the production services side of the business as service rig activity declined by 10 percent during the year from an average rig utilization of 69 percent in 2001 to 62 percent for the same period in 2002.

REVENUE BY DIVISION – 2002
($ millions)



REVENUE BY DIVISION – 2001
($ millions)



OPERATING AND GENERAL AND ADMINISTRATION EXPENSES

Operating expenses were reduced by 16 percent or $3.3 million in 2002 from $21.3 million or 42 percent of revenue in 2001 to $18 million or 48 percent of revenue for the same period in 2002. Over the corresponding period, general and administration expenses ("G&A") were reduced by 8.3 percent or $1.1 million to $12.1 million or 32 percent of revenue in 2002 from $13.2 million or 26 percent of revenue in 2001. The reductions in operating and G&A expenses reflect Peak's ongoing commitment to streamline operations and reduce overhead. The lower reductions in expenses relative to the decline in revenue over the same period reflect the relatively fixed nature of the associated expenses.

Operating expenses include such items as salaries, wages and vehicle expenses for field personnel, equipment repairs and maintenance, fuel, oil and other shop-related expenses. G&A expenses include salaries and benefits for office and selling staff, rent, utilities and communications in the Company's various divisional offices and its corporate head office. General and administration expenses also include costs to maintain the Company's public listing and professional fees required to operate the head office.

INTEREST EXPENSES

During the year, interest expense on long-term debt was reduced by 31 percent or $0.7 million from $2.2 million in 2001 or 4.2 percent of revenue to $1.5 million or 4.0 percent of revenue in 2002. This was a direct result of the $19.0 million debt repayment made during the second quarter of 2001 from the proceeds on the sale of the Company's subsidiary, Chimo Equipment Ltd. ("Chimo") in March 2001, as well as ongoing scheduled debt repayments of $2.9 million in 2002.

DEPRECIATION AND AMORTIZATION

For the 12 months ended December 31, 2002, depreciation declined by 15 percent or $0.6 million, reducing from $4.3 million in 2001 to $3.7 million in 2002. This reduction generally reflects the overall decline in activity over the prior year as the depreciation associated with the Company's assets that are depreciated based on actual utilization was reduced accordingly.

LOSS ON EQUITY INVESTMENT

In November 2000, Peak invested $0.7 million in Petrowave Solutions Inc. ("Petrowave") which provides secure internet-based commercial software solutions for the oil and gas sector. Peak had a 33.9 percent ownership in Petrowave and as such accounted for the investment using the equity method. During 2002, the remaining equity investment of $0.5 million ($0.02 per share diluted) was written off in accordance with CICA Handbook guidelines in spite of the potential commercial viability of this investment over the long term.

In addition, the Company has a revolving demand credit facility with Petrowave, to a maximum of $0.5 million, interest bearing at bank prime rate plus two percent. At December 31, 2002, $0.2 million (2001 – $0.1 million) of this facility was utilized and it is management's intention not to demand the repayment of this facility for more than one year.

LOSS ON MARKETABLE SECURITIES

In 2002, Peak invested in the shares of another publicly traded Canadian energy services company. Throughout the year, these shares were valued at the lower of cost and market resulting in a recorded loss on marketable securities of $0.1 million for the 12 months ended December 31, 2002. At December 31, 2002, the market value of these shares was $0.8 million compared to the cost recorded on the balance sheet of $0.7 million. Subsequent to December 31, 2002, the Company sold the shares it held and the gain on the sale of these shares amounted to $0.1 million before income taxes.

INCOME TAXES

The current income tax provision of $1.0 million was offset by a $0.3 million future tax reduction, resulting in net taxes of $0.7 million and an effective tax rate of 47 percent from operations. Included in the income tax provision were the taxes related to the write-off of the equity investment in Petrowave and the loss on the marketable securities totalling in aggregate approximately $0.1 million. Excluding the tax related to these items results in an effective tax rate of approximately 37 percent which is consistent with expectations for the year. By comparison, Peak had an effective tax rate from continuing operations of 33 percent in 2001 mostly due to the Company recording the initial impact of the tax rate reduction related to future enacted rates during the prior year. In 2002, the Company recorded a second rate reduction of 1.5 percent, reducing the Federal and Provincial statutory income tax rate to 39.1 percent in 2002 from 42.1 percent in 2001.

NET INCOME

Income from continuing operations for 2002 was $0.7 million ($0.02 per share diluted) compared to $5.8 million ($0.18 per share diluted) in 2001.

Net income for 2002 was $0.7 million ($0.02 per share diluted) compared to $18.3 million ($0.56 per share diluted) in 2001. Adjusting for the loss on the Petrowave equity investment noted above results in net income of approximately $1.2 million ($0.04 per share diluted) for 2002. Included in net income for 2001 were the results of the discontinued operations of Chimo ($0.03 per share diluted) and the gain on sale of Chimo in March 2001 for $11.7 million ($0.35 per share diluted).

Liquidity and Capital Resources

FUNDS PROVIDED BY OPERATIONS Funds provided by operating activities, before changes in non-cash working capital components, were $4.8 million ($0.15 per share) in 2002 compared to $14.5 million ($0.44 per share) in 2001.

INVESTMENTS Net cash used in investing activities in 2002 was $5.5 million compared to a cash inflow of $19.1 million in 2001. The significant cash flow from investing activities in 2001 was primarily due to the $28.2 million proceeds received on the sale of Chimo in 2001.

FINANCING Net cash used in financing activities in 2002 was $3.8 million compared to $32.9 million in 2001. The reduction in 2002 was primarily due to the repayment of $26 million of interest bearing debt by the Company during 2001 from the proceeds on the sale of Chimo. In addition, the Company repurchased $7.3 million in share capital in 2001 compared to $1.9 million in 2002.

LIQUIDITY The Company had net working capital of $11.8 million at the end of 2002 compared to $17.2 million at the end of 2001. As at December 31, 2002, shareholders' equity was $76 million compared to $95.7 million at the end of 2001 and long-term debt was $14.8 million at the end of 2002 compared to $17.7 million at the end of 2001.

Under section 3062 of the CICA Handbook, goodwill is no longer amortized monthly but must be tested for impairment at least annually at the same time each year. These rules apply for fiscal years commencing January 1, 2002, allowing for an adjustment of goodwill that is impaired to opening retained earnings as a change in the method of accounting for goodwill. In subsequent years, any impairment of goodwill must be charged against earnings in that subsequent year. As a result of these new changes and the market conditions prevailing during the first half of the year, management evaluated the goodwill remaining ($18.5 million) in accordance with the CICA Handbook during the second quarter of 2002 and determined that a full adjustment of goodwill to retained earnings was recommended. This decision had no economic impact on the operations of the business as the goodwill being adjusted to retained earnings pertained to a series of prior acquisitions that have been consolidated into Peak's main rental operation, Rocky Mountain Energy Services. This entity has, over the past two years, established itself as its own distinct operation with an expanded customer base and distribution network. This write-down of goodwill, coupled with the reduction in share capital repurchased by the Company noted above, explains the $19.7 million reduction in shareholders' equity in 2002.

ASSETS During 2002, total assets reduced by $21.8 million or 15 percent from $142.5 million at the end of 2001 to $120.7 million by the end of 2002. This was mainly related to the $18.5 million write-off of goodwill during the year and a reduction in cash and marketable securities of $3.6 million offset by a $1.5 million increase in the Company's capital assets during the year. Capital assets increased from $103.3 million at December 31, 2001 to $104.8 million at December 31, 2002. This increase resulted from capital additions of $6.6 million, offset by depreciation of $3.7 million and disposals of $1.4 million.

LONG-TERM DEBT

Since 1999, Peak has reduced its long-term debt from a high of $44.9 million to $14.8 million at the end of December 2002. In 2002, the Company reduced its long-term debt by $2.9 million from $17.7 million at the end of 2001 to $14.8 million at the end of December 2002.

The Company's debt facility consists of:

- An acquisition facility authorized for $25 million. Currently the Company has $1.0 million drawn on this facility. This loan has the flexibility to be drawn down and repaid without incurring any penalties. The Company anticipates this facility will be extended on an interest only basis for a further 12-month term coinciding with the annual review in May 2003. The loan is utilized to fund capital expenditures and acquisitions as required and is secured by accounts receivable and certain equipment.
- A $7.8 million loan payable to First Treasury Financial Inc. requiring quarterly principal payments of $0.3 million. Interest is calculated at 8.03 percent. The loan matures May 2004 and is secured by certain equipment.
- A $3.9 million loan payable to First Treasury Financial Inc. requiring quarterly principal payments of $0.1 million. Interest is calculated at 7.66 percent. The loan matures May 2004 and is secured by certain equipment.
- A $6.1 million loan payable to GE Capital Corporation requiring monthly payments of $0.1 million including interest at bank prime rate plus 1.5 percent. The loan matures March 2004 and is secured by certain equipment.

All covenants were satisfied at the end of December 2002 and all banking requirements were up to date.

SHARE CAPITAL

Peak's common share capital decreased from $74.5 million at the end of 2001 to $71.9 million at the end of 2002 due to the continuation of the normal course issuer bid, which was renewed for another 12-month period effective May 15, 2002. The Company has purchased 1,032,400 shares since the end of 2001 at an average price of $1.86 per share. Of the 1,032,400 shares repurchased in 2002, 946,400 apply to the issuer bid renewed on May 15, 2002. The Company is eligible to repurchase up to 1,550,691 under the current normal course issuer bid, representing a maximum of five percent of the issued and outstanding common shares of Peak effective May 15, 2002. Since 1998, the Company has repurchased 7,573,800 shares at an average price of $2.37.

Peak had 29.98 million common shares outstanding at the end of 2002 compared to 31.1 million at the end of 2001 and the Company had 2.9 million options outstanding at the end of 2002 compared to 2.6 million at the end of 2001.

STOCK-BASED COMPENSATION Effective January 1, 2002, the Company prospectively adopted CICA Handbook section 3870, the new standard for accounting for stock options. For stock options that are granted to non-employees, an amount equal to the fair value of the option on the date granted will be charged to earnings over the vesting period. For stock options that are granted to employees of the Company, the new standard provides that the Company may elect not to use the fair value method but rather to disclose the effect of the fair value method on a pro forma basis.

For the year ended December 31, 2002, the per share weighted average fair value of stock options granted was $2.08, based on the dates of the grants using the Black-Scholes option pricing model with the following average assumptions: risk-free interest rate of 4.06 percent, expected life of four years and expected volatility of 51 percent.

If compensation expense had been determined based on the fair value at the grant dates for options awarded under the stock option plan, the Company's net income for the 12 months ended December 31, 2002 would have been reduced by $87,000 to $650,000 ($0.02 per share diluted) from $737,000 ($0.02 per share diluted). These pro forma earnings reflect compensation costs amortized over the options' vesting periods.

Business Risk and Management

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors, including but not limited to, hydrocarbon prices, production levels of their current reserves and access to capital. Activity levels are ultimately dependent on the above factors. However, there tends to be a lag time as most oil and gas producers and explorers do not change their capital expenditure budgets due to short-term changes in any one of the above factors.

The segments of the oil and gas service industry in which Peak operates are heavily reliant on the level of drilling activity in Western Canada. There is a direct correlation between drilling activity and utilization rates for the Company's services.

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The Company also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedure manuals for each of its subsidiaries, as well as required internal and external safety environmental response and operating training for all employees. The general managers of each of Peak's subsidiaries are required, in the event of any incident, to report to Peak's Vice President, Operations.

Outlook

The outlook for 2003 looks promising as natural gas and crude oil inventory storage levels remain under pressure and hydrocarbon prices continue to be strong. Peak experienced utilization levels in excess of 90 percent in its drilling services division during the first three months of 2003. Activity beyond the first quarter of 2003 continues to be largely dependent on the continued strength of commodity prices. Having said this, Peak is optimistic activity will be significantly improved over the balance of 2003 relative to 2002 given the recent draws on natural gas and crude oil inventory in North America.

In addition to the foregoing, Peak's acquisition of the operating assets of Mighty Mats Ltd. ("Mighty Mats") and Cobalt Rentals Ltd. ("Cobalt") effective March 6, 2003 and its acquisition of Whitefox Environmental Services Inc. ("Whitefox") in early April 2003 position the Company for significant year-over-year growth in 2003.

In summary, in spite of the 27 percent reduction in activity levels in 2002, Peak continued to perform well in all of its major product lines throughout the year relative to activity levels and the Company was very diligent in setting the stage for the return to higher activity by continuing to streamline activities throughout the operation. This, coupled with an enhanced focus on reviewing the returns provided on all product lines and increased pricing related to the increase in activity in general, should provide improved results for 2003. The continuation of strategic growth through accretive acquisitions and ongoing internal expansion should also provide significant upside for years to come.

Peak's balance sheet also remains strong and enviable, with cash and marketable securities in excess of $3.9 million, available financing capacity exceeding $45 million and net debt of $14.8 million (defined as total interest bearing debt less cash and marketable securities) on shareholders' equity of $76 million at the end of 2002. This solid financial foundation continues to position Peak well for the anticipated return to higher levels of activity in 2003. The strength of Peak's financial position at year-end has enabled the Company to successfully complete strategic acquisitions like Mighty Mats, Cobalt and Whitefox and continue its focus on several other profitable growth opportunities. This financial flexibility will continue to be the cornerstone of Peak's long-term strategy to provide enhanced returns for shareholders.

Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2002 AND 2001

All information presented in the annual report is the responsibility of the Company's management. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The Company's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and KPMG LLP, the Company's external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer

Matthew J. Huber, C.A., CMA
Vice President, Finance

February 25, 2003

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Peak Energy Services Ltd. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 25, 2003

Consolidated Balance Sheets

December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Assets		
Current assets:		
Cash	$ 3,275	$ 7,506
Marketable securities *(note 3)*	670	–
Accounts receivable	8,340	9,434
Income taxes receivable	83	–
Prepaid expenses	1,048	1,216
Inventory	2,226	1,903
	15,642	20,059
Property and equipment *(note 4)*	104,816	103,335
Loan receivable *(note 5)*	235	100
Investment *(note 5)*	–	544
Goodwill *(note 2(a))*	–	18,466
	$ 120,693	$ 142,504
Liabilities and Shareholders' Equity		
Current liabilities:		
Demand loan *(note 6)*	$ 1,000	$ –
Accounts payable and accrued liabilities	2,894	2,118
Income taxes payable	–	756
Current portion of long-term debt *(note 7)*	2,945	2,901
	6,839	5,775
Long-term debt *(note 7)*	14,767	17,696
Future income taxes *(note 9)*	23,048	23,343
Shareholders' equity:		
Share capital *(note 8)*:		
Common shares	71,850	74,546
Contributed surplus	1,290	516
Retained earnings	2,899	20,628
	76,039	95,690
Commitments *(note 11)*		
	$ 120,693	$ 142,504

See accompanying notes to consolidated financial statements.

Approved by the Board:

Christopher E. Haslam, Director

Richard Grafton

Richard A. Grafton, Director

Consolidated Statements of Income

Years ended December 31, 2002 and 2001 (in thousands of dollars, except per share amounts)	2002	2001
Revenue	$ 37,280	$ 51,298
Expenses:		
Operating	18,001	21,322
General and administrative	12,066	13,162
Interest on long-term debt	1,482	2,153
Depreciation	3,679	4,306
	35,228	40,943
Income from continuing operations before other items	2,052	10,355
Other items:		
Loss on equity investment *(note 5)*	(544)	(106)
Loss on marketable securities	(118)	–
	(662)	(106)
Income from continuing operations before income taxes	1,390	10,249
Income taxes *(note 9)*:		
Current	948	118
Future (reduction)	(295)	3,236
	653	3,354
Income from continuing operations before goodwill amortization	737	6,895
Amortization of goodwill, net of income taxes	–	1,142
Income from continuing operations	737	5,753
Income from discontinued operations, net of income taxes *(note 12)*	–	893
Income before gain on sale of discontinued operations	737	6,646
Gain on sale of discontinued operations, net of income tax	–	11,703
Net income	$ 737	$ 18,349
Earnings per share before goodwill amortization		
Basic	$ 0.02	$ 0.22
Diluted	$ 0.02	$ 0.21
Earnings per share from continuing operations		
Basic	$ 0.02	$ 0.18
Diluted	$ 0.02	$ 0.18
Earnings per share		
Basic	$ 0.02	$ 0.57
Diluted	$ 0.02	$ 0.56

Consolidated Statements of Retained Earnings

Years ended December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Retained earnings, beginning of year		
As previously reported	$ 20,628	$ 2,279
Change in method of accounting for goodwill *(note 2(a))*	(18,466)	–
As restated	2,162	2,279
Net income	737	18,349
Retained earnings, end of year	$ 2,899	$ 20,628

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Operating activities:		
Income from continuing operations	$ 737	$ 5,753
Add (deduct) items not affecting cash:		
Depreciation	3,679	5,448
Gain on sale of equipment	(24)	(92)
Loss on equity investment	544	106
Loss on marketable securities	118	–
Future income taxes	(295)	3,236
	4,759	14,451
Change in non-cash working capital balances:		
Accounts receivable	1,094	5,601
Prepaid expenses	168	274
Inventory	(40)	(199)
Accounts payable	(22)	(1,021)
Income tax payable/recoverable	(839)	563
Cash flow from continuing operations	5,120	19,669
Discontinued operations	–	1,567
	5,120	21,236
Investing activities:		
Purchase of equipment	(6,591)	(9,669)
Proceeds on disposal of equipment	1,172	788
Proceeds on disposal of subsidiary	–	28,214
Acquisition of marketable securities	(1,048)	–
Proceeds on disposal of marketable securities	260	–
Increase in loan receivable	(135)	(100)
Net change in non-cash working capital from the purchase of equipment	798	(102)
	(5,544)	19,131
Financing activities:		
Increase in demand loan	1,000	–
Repayment of long-term debt	(2,885)	(21,221)
Increase in bank operating line	–	(4,802)
Issue of share capital, net of costs	–	426
Repurchase of share capital	(1,922)	(7,264)
	(3,807)	(32,861)
Increase (decrease) in cash	(4,231)	7,506
Cash, beginning of year	7,506	–
Cash, end of year	$ 3,275	$ 7,506
Supplemental information		
Interest paid	$ 1,482	$ 2,153
Income taxes refunded	$ 10	$ 543

See accompanying notes to consolidated financial statements.

Years ended December 31, 2002 and 2001 (tabular amounts in thousands of dollars)

GENERAL

Peak Energy Services Ltd. (the "Company") is a diversified Canadian energy services company operating in Western Canada. Through its various operating segments, the Company provides well-site accommodations, solids control and production services to oil and gas drilling contractors and oil and gas producers.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation The consolidated financial statements include the accounts of the Company and its subsidiaries and partnership, all of which are wholly owned.

(b) Inventory Inventory of raw materials, replacement parts and other supplies are stated at the lower of cost determined on a specific or average cost basis, and replacement value.

(c) Capital assets Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the assets using the following methods and rates:

Asset	Method	Rate
Vehicles and equipment	Declining balance	20%
Machinery and equipment	Declining balance	10 to 20%
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%

Depreciation on certain rental assets is provided on a utilization method based upon estimated useful lives of up to 5,475 rental days.

(d) Investment The investment in an associated company over which the Company has significant influence is accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post-acquisition losses less dividends.

(e) Stock-based compensation plans The Company has a stock option plan which is described in Note 8(d). When stock options are issued to employees, no compensation expense is recorded in the financial statements. Any consideration received on exercise of the stock options is credited to share capital.

(f) Revenue recognition Revenue is primarily recognized as services are rendered based upon agreed daily, hourly or job rates.

(g) Income taxes The Company follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(h) Use of estimates The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements. Actual results could differ from those estimates.

(i) Per share amounts Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(j) Comparative figures Certain comparative figures have been reclassified to conform with the current financial statement presentation.

2. CHANGE IN ACCOUNTING POLICY

(a) Business combinations, goodwill and other intangible assets Effective January 1, 2002, the Company prospectively adopted the new Canadian accounting standards for business combinations, goodwill and other intangible assets. Under the new standards for accounting for goodwill, goodwill is no longer amortized but is tested for impairment annually.

For the purposes of testing goodwill, the Company determined as of the date of adoption that it has two reporting units and segments: Drilling Services and Production Services. Within the Drilling Services reporting unit, there are two components referred to as well-site accommodations and solids control which are aggregated and deemed to be a single reporting unit having similar economic characteristics.

The Company allocated all applicable assets (including goodwill) and liabilities to these two reporting units to arrive at the respective carrying amounts and then conducted the required two steps impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment. The fair value of each reporting unit was determined by estimating the present value of future cash flows. Upon performing this impairment analysis, the Company determined that goodwill in both the Drilling Services and Production Services reporting units was impaired. Accordingly, a transitional goodwill impairment loss of $14,957 was recognized in the Drilling Services reporting unit and $3,509 was recognized in the Production Services reporting unit. The combined write down of $18,466 was charged to retained earnings at January 1, 2002.

(b) Stock-based compensation plan The Company has a stock-based compensation plan, which is described in Note 8(d). No compensation expense is recognized for this plan when stock or stock options are issued to employees. Consideration paid by employees on exercise of stock options is credited to share capital.

3. MARKETABLE SECURITIES

The Company holds shares in another publicly traded Canadian energy services company and these shares are valued at the lower of cost or market. At December 31, 2002, the market value of these shares was $769,000. Subsequent to December 31, 2002, the Company sold the shares it held and the gain on the sale of these shares amounted to $110,000 before income taxes.

4. PROPERTY AND EQUIPMENT

2002	Cost	Accumulated depreciation	Net book value
Rental assets	$ 93,999	$ 12,013	$ 81,986
Vehicles and equipment	20,943	6,771	14,172
Machinery and equipment	1,558	527	1,031
Land and buildings	1,253	55	1,198
Office and computer equipment	7,626	1,197	6,429
	$ 125,379	$ 20,563	$ 104,816

2001	Cost	Accumulated depreciation	Net book value
Rental assets	$ 93,346	$ 12,724	$ 80,622
Vehicles and equipment	20,024	5,791	14,233
Machinery and equipment	1,407	339	1,068
Land and buildings	1,272	91	1,181
Office and computer equipment	6,913	682	6,231
	$ 122,962	$ 19,627	$ 103,335

5. INVESTMENT AND LOAN RECEIVABLE

In November 2000, the Company invested $650,000 in Petrowave Solutions, Inc. ("Petrowave"), a company which provides secure internet-based commercial software solutions for the oilfield services sector. This investment represents a 33.9% ownership interest in Petrowave and as such is accounted for using the equity method. During 2002, the investment of $544,000 was written off.

In addition, the Company has a revolving demand credit facility with Petrowave, to a maximum of $500,000, interest-bearing at bank prime rate plus 2%. At December 31, 2002, $235,000 (2001 – $100,000) of this facility was utilized and it is management's intention not to demand the repayment of this facility for more than one year.

6. DEMAND LOAN

The Company has a demand revolving bank loan facility of $25,000,000. The loan bears interest at bank prime rate plus 0.75% or at bankers acceptance rates plus a stamping fee of 1.5%. The loan is secured by a general assignment of book debts and a general security agreement.

Without limiting the demand nature of the facility, on May 31, 2004 and with 90 days notice, the facility would be repayable over a maximum term of five years.

7. LONG-TERM DEBT

	2002	2001
Loan payable requiring quarterly principal payments of $250,000 plus interest at 8.03%. The loan matures May 2004 and is secured by certain equipment.	$ 7,750	$ 8,750
Loan payable requiring monthly payments of $147,031 including interest at bank prime rate plus 1.5%. The loan matures March 2004 and is secured by certain equipment.	6,087	7,464
Loan payable requiring monthly interest payments and quarterly principal payments of $125,000. Interest at 7.66%. The loan matures May 2004 and is secured by certain equipment.	3,875	4,375
Loans payable requiring monthly principal payments of $13,000 including interest at bank prime rate plus 1.5%	–	8
	17,712	20,597
Less current portion	2,945	2,901
	$ 14,767	$ 17,696

Principal payments due in the next five years are as follows:

2003	$ 2,945
2004	6,367
2005	1,800
2006	1,800
2007	1,800
Thereafter	3,000
	$ 17,712

8. SHARE CAPITAL

(a) The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

(b) Issued

	Number of common shares (thousands)	Amount
Balance, December 31, 2000	33,209	$ 80,134
Exercise of share options	374	494
Repurchased and cancelled	(2,498)	(6,014)
Less share issue costs (net of future income taxes of $38)	–	(68)
Balance, December 31, 2001	31,085	74,546
Exercise of share options	17	21
Repurchased and cancelled	(1,124)	(2,696)
Less share issue costs (net of future income taxes of $38)	–	(21)
Balance, December 31, 2002	29,978	$ 71,850

(c) Contributed surplus Contributed surplus arises upon the repurchase and cancellation of common shares at a price below the stated capital price per share.

(d) Share options The Company has reserved 2,951,935 common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain full-time employees and officers of the Company. At December 31, 2002 there were Plan stock options outstanding to purchase 2,901,833 (2001 – 2,556,834) common shares at prices ranging from $1.20 to $3.00 per share, with expiry dates ranging from January 2003 to October 2007. Options are granted throughout the year and vest at 33 1/3% per year over three years commencing on the date of granting.

A summary of the status of the Company's stock option plan as of December 31, 2002 and 2001 and changes during the years then ended is presented below:

	2002		2001	
	Options (thousands)	Weighted average exercise price	Options (thousands)	Weighted average exercise price
Outstanding, beginning of year	**2,557**	**$ 2.42**	2,846	$ 2.23
Granted	**611**	**2.08**	575	2.86
Exercised	**(17)**	**1.20**	(374)	1.32
Cancelled	**(249)**	**4.24**	(490)	2.61
Outstanding, end of year	**2,902**	**$ 2.20**	2,557	$ 2.42
Exercisable at end of year	**1,754**	**$ 2.08**	1,335	$ 2.42

The range of exercise prices for options outstanding at December 31, 2002 is as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
$1.20	555,000	1.3	$ 1.20	555,000	$ 1.20
$1.30 to 2.05	326,000	2.4	1.72	235,000	1.66
$2.10 to 2.75	1,480,833	2.6	2.42	757,222	2.62
$2.80 to 3.70	540,000	3.3	2.91	206,667	2.90
$1.20 to 5.40	2,901,833	2.5	$ 2.20	1,753,889	$ 2.08

In accordance with the Company's stock option plan, these options have an exercise price equal to the market price at date of grant. The per share weighted average fair value of stock options granted was $2.08 during the year ended December 31, 2002.

Had compensation expense been determined based on the fair value at the grant dates for options awarded under the stock option plan, the Company's net income for the year ended December 31, 2002 would have been decreased by $87,000 to $0.02 (diluted earnings per share – $0.02). These pro forma earnings reflect compensation cost amortized over the options' exercise period, and were calculated using a Black-Scholes option pricing model with the following average assumptions: risk-free interest rate of 4.06%, expected life of four years and expected volatility of 51%.

(e) Per share amounts Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the year ended December 31, 2002 was 30,765,581 (year ended December 31, 2001 – 32,037,352).

Diluted per share amounts reflect the dilutive effect of the options outstanding. The diluted shares outstanding for the year ended December 31, 2002 was 31,048,385 (year ended December 31, 2001 – 32,613,436).

9. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 39.1% (2001 – 42.1%) to income before income taxes. The reconciliation of the differences is as follows:

	2002	2001
Income from continuing operations	$ 1,390	$ 10,249
Income tax rate	39.1%	42.1%
Expected income tax provision	$ 543	$ 4,315
Change resulting from:		
Future enacted tax rates	(256)	(1,172)
Loss on equity investment	116	26
Loss on marketable securities	23	–
Other	227	185
	110	(961)
	$ 653	$ 3,354

The net future income tax liability at December 31, 2002 is comprised of the following temporary differences:

	2002	2001
Future income tax assets:		
Non-capital losses	$ 955	$ 1,229
Losses deferred for income tax purposes	954	30
Other	131	–
	2,040	1,259
Future income tax liabilities:		
Property and equipment	(25,088)	(22,908)
Income deferred for income tax purposes	–	(1,694)
	(25,088)	(24,602)
	$ (23,048)	$ (23,343)

At December 31, 2002, the Company has accumulated loss carryforwards for income tax purposes of $2,567,000 available as a deduction against future income. These losses expire primarily during the years 2005 to 2009.

10. FINANCIAL INSTRUMENTS

(a) Risk management activities Concentration of credit risk on the Company trade accounts receivable exists in the oil and gas industry. The Company does not have a significant exposure to any individual customer or other parties.

(b) Fair values The carrying values of cash, accounts receivable, income taxes receivable and payables and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The long-term debt has a fair value of approximately $22,331,000 as at December 31, 2002 (December 31, 2001 – $26,226,000).

(c) Interest rate risk The Company manages its exposure to interest rate risks through a combination of fixed and floating rate borrowings.

11. COMMITMENTS

The Company is committed to payments under operating leases for equipment and buildings as follows:

2003	$ 2,322
2004	2,190
2005	1,927
2006	1,502
2007	1,083

12. DISCONTINUED OPERATIONS

On March 20, 2001, the Company sold the shares of its wholly owned subsidiary, Chimo Equipment Ltd. ("Chimo") representing the drilling instrumentation segment, for total cash proceeds of $28,214,000. The net gain on the sale of the discontinued operations amounted to $11,703,000 after income taxes of $94,000, and the income from the discontinued operations was $893,000 after income taxes of $769,000. Discontinued operations generated revenues of $3,677,000 to the date of disposal, which have been excluded from revenues from continuing operations.

13. SEGMENTED INFORMATION

The Company has determined that it operates in two industry segments which are substantially in one geographic segment. Previously, the Company had determined that it operated in three industry segments. The Drilling Services operating segment is comprised of two components; well-site accommodations and solids control. The well-site accommodations component is engaged in the manufacturing and rental of high-quality well-site accommodation units used as living quarters for staff on remote locations in the oil and gas industry and the solids control component is engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges. The well-site accommodation and solids control components are aggregated into the single operating segment referred to as Drilling Services because they have similar economic characteristics and are similar in nature regarding customers, the products and services offered, the processes and distribution methods utilized and the regulatory environment they operate in. The Production Services operating segment is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids.

	Drilling Services segment			Production		
	Well-site accommodations	Solids control	Subtotal	Services segment	Corporate	Total
2002						
Revenue	**$ 10,084**	**$ 11,606**	**$ 21,690**	**$ 15,590**	**$ –**	**$ 37,280**
Interest on long-term debt	**–**	**–**	**–**	**–**	**1,482**	**1,482**
Depreciation	**874**	**1,208**	**2,082**	**1,483**	**114**	**3,679**
Net income from continuing operations	**2,178**	**2,608**	**4,786**	**1,623**	**(5,672)**	**737**
Total assets	**33,045**	**52,561**	**85,606**	**30,011**	**5,076**	**120,693**
Capital expenditures	**1,462**	**2,405**	**3,867**	**2,230**	**494**	**6,591**
2001						
Revenue	$ 14,834	$ 17,294	$ 32,128	$ 19,170	$ –	$ 51,298
Interest on long-term debt	1	1	2	–	2,151	2,153
Depreciation	1,045	2,128	3,173	2,206	69	5,448
Net income from continuing operations	5,617	5,819	11,436	3,042	(8,725)	5,753
Total assets	40,131	60,839	100,970	35,641	5,893	142,504
Capital expenditures	3,336	3,676	7,012	1,696	961	9,669
Goodwill	–	–	14,957	3,509	–	18,466

Corporate Information

BOARD OF DIRECTORS

William M. Gallacher
Managing Director and Chief Operating Officer, Avenir Capital Corporation
Director, Maxim Power Corporation
Director, Atlas Energy

Richard A. Grafton
President and Chief Executive Officer, Avenir Capital Corporation

John A. Hagg
Corporate Director

Christopher E. Haslam
President, Chief Executive Officer and Chairman of the Board

Frederick A. Moore
President, Nusco Supply & Manufacturing Inc.

R.D. Barry Sullivan
Private Investor

Lloyd Swift
President, Square Butte Resources Inc.

MANAGEMENT

Christopher E. Haslam
President and Chief Executive Officer

Matthew J. Huber
Vice President, Finance

Curt W. Whitteron
Vice President, Operations

Craig F. Tizzard
Corporate Controller

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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: "PES"

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Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

ANNUAL MEETING

The Annual Meeting of the shareholders of Peak Energy Services Ltd. will be held on Wednesday, June 4, 2003 at 10:00 a.m. in the Viking Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta. Shareholders are encouraged to attend. Those unable to do so should complete and forward the forms of proxy to Computershare Investor Services.

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